

CITY OF BALTIMORE

LOAN AND GUARANTEE PROGRAM

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2003

(WITH INDEPENDENT AUDITORS' REPORT)

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
FINANCIAL STATEMENTS
JUNE 30, 2003

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CITY OF BALTIMORE
MARTIN O'MALLEY
Mayor

DEPARTMENT OF AUDITS
Room 321, City Hall
Baltimore, Maryland 21202

ERNST & YOUNG
621 E. Pratt Street
Baltimore, Maryland 21202

Report of Independent Auditors

December 9, 2003

The Mayor, City Council, Comptroller and
Board of Estimates of the City of Baltimore, Maryland

We have jointly audited the accompanying financial statements of the Loan and Guarantee Program of the City of Baltimore, Maryland, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Loan and Guarantee Program and do not purport to, and do not present fairly the financial position of the City of Baltimore, Maryland, as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loan and Guarantee Program of the City of Baltimore, Maryland, as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Yovonda D. Brooks, CPA
City Auditor
Department of Audits

Ernst & Young LLP

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Net Assets
June 30, 2003
(Expressed in Thousands)

Assets:	
Current assets:	
Cash and cash equivalents.....	\$12,068
Notes receivable	\$ 36,801
Less allowance for doubtful accounts.....	<u>(36,801)</u>
Net notes receivable.....	-
Investments.....	476
Accounts receivable, net.....	<u>171</u>
Total current assets.....	<u>12,715</u>
Total assets.....	<u>12,715</u>
Liabilities:	
Noncurrent liabilities:	
Notes payable.....	65
Other liabilities-primarily reserves for losses on guarantees....	<u>813</u>
Total noncurrent liabilities.....	<u>878</u>
Total liabilities.....	<u>878</u>
Net Assets:	
Unrestricted.....	<u>11,837</u>
Total net assets.....	<u><u>\$ 11,837</u></u>

See notes to financial statements.

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2003
(Expressed in Thousands)

Operating revenues:	
Rents, fees and other income.....	\$ 2,961
Interest income on loans.....	<u>258</u>
Total operating revenues.....	<u>3,219</u>
Operating expenses:	
Salaries and wages.....	117
Other personnel costs.....	31
Contractual services.....	319
Program expenses.....	<u>2,741</u>
Total operating expenses.....	<u>3,208</u>
Operating income.....	<u>11</u>
Transfers out.....	<u>(2,154)</u>
Changes in net assets.....	(2,143)
Total net assets - beginning.....	<u>13,980</u>
Total net assets - ending.....	<u><u>\$ 11,837</u></u>

See notes to financial statements.

CITY OF BALTIMORE
Loan and Guarantee Program
Statement of Cash Flows
For the Year Ended June 30, 2003
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers.....	\$ 899
Payments to employees.....	(148)
Payments to suppliers.....	(6,930)
Net cash (used) by operating activities.....	<u>(6,179)</u>
Cash flows from non-capital financing activities:	
Transfers out.....	<u>(2,744)</u>
Cash flows from capital and related financing activities:	
Notes receivable - repayments.....	<u>4,737</u>
Cash flows from investing activities:	
Purchase of investments.....	<u>(25)</u>
Net (decrease) in cash and cash equivalents.....	(4,211)
Cash and cash equivalents, beginning of year.....	<u>16,279</u>
Cash and cash equivalents, end of year.....	<u><u>\$ 12,068</u></u>
Reconciliation of operating income to net cash (used) by operating activities:	
Operating income.....	\$ <u>11</u>
Decrease in allowance for bad debt recognized as revenue.....	(2,308)
Changes in assets and liabilities:	
Accounts receivable.....	(12)
Other liabilities.....	(2,012)
Notes Payable.....	(59)
Due to other funds.....	<u>(1,799)</u>
Total adjustments.....	<u>(6,190)</u>
Net cash (used) by operating activities.....	<u><u>\$ (6,179)</u></u>

See notes to financial statements.

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Financial Statements
June 30, 2003
(Expressed in Thousands)

1. Description of the Program

The Loan and Guarantee Program, an enterprise fund of the City of Baltimore (the Program), was created by resolution of the Board of Estimates of the City of Baltimore pursuant to four separate trust agreements. As of July 1, 1986, the Board of Estimates dissolved the then existing trust agreements and placed responsibility for the continuing management of the Program with the Director of Finance of the City of Baltimore (City).

In general terms, this Program provides for utilization of proceeds from certain bond issues, grants, donations and contributions appropriated by the City and also certain funds included in the capital portion of the annual Ordinance of Estimates. Such funds are used for direct loans or for guarantees for loans made by third parties for residential, commercial and industrial rehabilitation and development or for the construction of certain capital projects.

The major objectives of the Program are the expansion of the tax base and achievement of certain employment objectives of the City. The Program supports projects, which are consistent with the master plan for City development, and provides funds only when necessary financing is not forthcoming from private lenders.

These financial statements relate only to the operations of the Program and are not intended to present the financial position, changes in financial position, and cash flows of the City.

2. Summary of Significant Accounting Policies

The accounting and financial reporting policies of the Program conform to accounting principles generally accepted in the United States (GAAP) and reporting standards as promulgated by the Governmental Accounting Standards Board (GASB) for proprietary funds.

The Program follows FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded at the time they are earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Financial Statements
June 30, 2003
(Expressed in Thousands)

Operating revenues are those that result from the services provided by the program; all other revenue is considered non-operating.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the Program.

Investments

Investments, which consist of certificates of deposit, are stated at cost.

Notes and Loan Guarantees

The Program provides for losses on notes and accrued interest receivable when, in management's judgment, it is probable that the outstanding principal or accrued interest will not be repaid in accordance with the terms of the loan and the borrower or the collateral will be unable to otherwise fully satisfy the obligation. Many loans contain provisions for the accrual of current interest and payment thereof in future periods when collateralized property produces sufficient cash flow. The Program accrues interest income in accordance with the terms of the loan contracts. Interest accruals are suspended when payments of interest or principal are not being made in accordance with contract requirements or when, in management's judgment, a loss is expected on the loan. A provision for loss on loan guarantees is recognized when, in management's judgment, a loss is expected. During fiscal year 2003, the Program recognized a decrease in the allowance for bad debt in the amount of \$2,308,000 as operating revenue.

Statement of Net Assets

The statement of net assets is designed to display the financial position of the Program. Since the Program has no capital assets and no restricted net assets, all Program net assets are unrestricted.

3. Deposits and Investments

The Program participates in the City's pooled cash account. At June 30, 2003, the Program's share of the City's pooled cash account was \$12,068,000. All of the City's cash deposits are either insured through Federal Depository Insurance Corporation (FDIC) or collateralized by securities held in the name of the City by the City's agent.

CITY OF BALTIMORE
Loan and Guarantee Program
Notes to the Financial Statements
June 30, 2003
(Expressed in Thousands)

In accordance with State law, the City is authorized to invest in direct or indirect obligations of the U.S. Government, certificates of deposit and repurchase agreements and related mutual funds. City policy requires that securities underlying repurchase agreements must have a market value of at least 100% of the cost of the repurchase agreement and that the City takes possession of the securities when the repurchase agreement's maturity is over five days. Management believes the City has complied with this policy throughout the year.

At June 30, 2003, the Program had bank balances in the form of non-negotiable certificates of deposit, with a carrying value of \$476,000, which is reported as investments. The Federal Deposit Insurance Corporation (FDIC) insured \$125,000 of the certificates held at June 30, 2003. The remaining \$351,000 was collateralized by accounts held by the City's agent but not in the name of the City.

4. Contingencies

As of June 30, 2003, the Program is contingently liable for insured and guaranteed loans totaling \$723,000.

5. Transfers

The Program transferred \$2,154,000 to the City's Special Revenue Fund. These transfers represent loan proceeds collected by the fund and returned to the Special Revenue fund.